



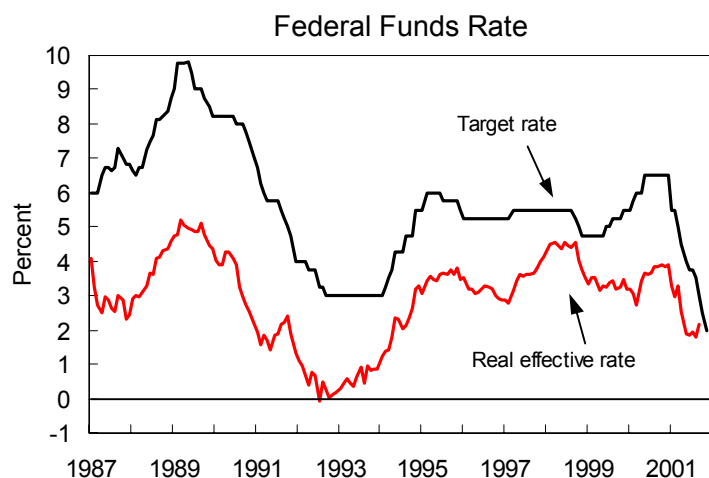
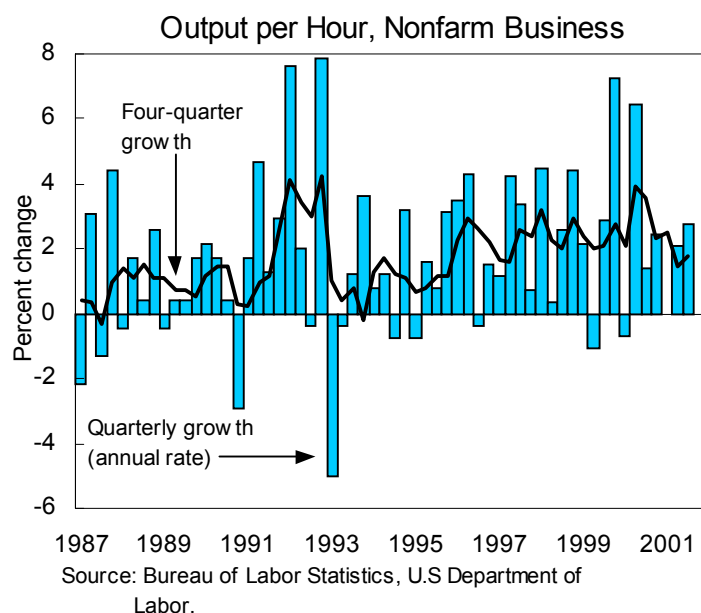
# WEEKLY ECONOMIC DIGEST



JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF  
SENATOR JACK REED (D-RI) – VICE CHAIRMAN

November 13, 2001

## With Only Moderate Inflation, Fed Policy is Focused on Growth



- **Productivity growth accelerated slightly in the third quarter.** Preliminary data indicate that output per hour in the nonfarm-business sector increased at an annual rate of 2.7 percent in the third quarter, up from its 2.2 percent growth in the second quarter. Both output and hours worked declined in the third quarter, but hours fell more sharply than output. Although the uptick in productivity growth may largely be temporary, it nevertheless underscores the absence of discernible inflationary pressures. Unit labor costs increased 1.8 percent at an annual rate in the third quarter, sharply slower than the 3.1 percent increase in 2000, and the 3.8 percent average rate over the first half of this year.
- **Producer prices fell in October.** The Producer Price Index for finished goods fell 1.6 percent last month, largely due to plunging energy prices (-7.7 percent) and a sizeable decline in food prices (-0.4 percent). Even after removing the effects of food and energy, however, producer prices fell by 0.5 percent in October, reflecting declining prices for cars and light trucks.
- **The Fed signaled its readiness to cut further if necessary.** In announcing its decision to lower the target for the federal funds rate to 2 percent, the Federal Open Market Committee (FOMC) made it clear that it continues to regard the risks of inflation as small when compared with the risks of continued declines in production and employment. Moreover, the minutes of the FOMC's October meeting (published last week) indicate that the central bank does not view its long string of rate cuts as unusually accommodative. Indeed, with inflation still so low, the real federal funds rate remains higher than it was during the last recession.

<b>Economy At A Glance</b>	Oct	Sep	Aug	Jul	2001 Qtr 3	2001 Qtr 2	2001 Qtr 1	2000 Qtr 4	2000	1999
<b>Economic Activity</b>										
Real GDP (% growth)					-0.4	0.3	1.3	1.9	4.1	4.1
Industrial Production (% growth)*		-11.4	-8.1	-1.2	-6.2	-4.4	-6.8	-0.9	5.6	4.2
Capacity Utilization (Level, %)*		75.5	76.4	77.0	76.3	77.8	79.2	81.3	82.1	81.2
Civilian Unemployment Rate (Level, %)	5.4	4.9	4.9	4.5	4.8	4.5	4.2	4.0	4.0	4.2
Housing Starts (Thousands)*		1574	1548	1660	1594	1623	1627	1539	1575	1647
Real Disposable Personal Income (% growth)		-7.0	25.3	23.9	12.8	2.4	2.7	4.2	3.5	2.5
Retail Sales (% growth)*		-24.9	5.1	2.4	-1.0	5.2	5.2	0.2	7.6	8.2
Personal Saving Rate (Level, %)		4.7	4.1	2.5	3.8	1.1	1.1	1.0	1.0	2.4
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, All Items (% growth)*		4.9	1.2	-3.5	0.7	3.1	4.2	2.9	3.4	2.2
Core CPI-U Inflation (% growth)*		2.4	2.4	2.4	2.5	2.6	3.2	2.4	2.4	2.1
Compensation per Hour (% growth)					3.6	4.1	4.5	3.6	4.4	3.5
Output per Hour (% growth)					2.7	2.2	0.1	2.3	3.0	2.3
<b>Financial Markets</b>										
T-Bill Rate, 3-month (Level, %)	2.2	2.6	3.4	3.5	3.2	3.7	4.8	6.0	5.8	4.6
T-Note Rate, 10-years (Level, %)	4.6	4.7	5.0	5.2	5.0	5.3	5.1	5.6	6.0	5.7
Federal Funds Rate (Level, %)	2.5	3.1	3.7	3.8	3.6	4.3	5.6	6.5	6.2	5.0
Dow Jones Industrial Avg (Index Level)	9221	9043	10315	10445	9934	10669	10513	10586	10735	10465

Sources: Bureau of Economic Analysis, US Department of Commerce; US Bureau of the Census; Board of Governors of the Federal Reserve System; Bureau of Labor Statistics, US Department of Labor; and, Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. Compensation is the Employment Cost Index for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

\* Subject to revision this week.

### Major Economic News Due This Week:

- **Retail Sales, October** [Release: Wednesday, November 14, 2001]
- **Consumer Price Index, October** [Release: Friday, November 16, 2001]
- **Industrial Production, October** [Release: Friday, November 16, 2001]
- **Housing Starts, October** [Release: Monday, November 19, 2001]